AN ANALYSIS OF UNCRATED HOUSEHOLD GOODS TRAFFIC

D. G. DE BODE

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Lieutenant, United States Navy

Submitted in partial fulfillment of
the requirements for the degree of

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IN
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ABSTRACT

This paper examines the existing Navy Household Goods (HHG) Program in relation to proposed alternative methods in an effort to improve the efficiency of uncrated household goods moves for Naval personnel. "Efficient" is defined as maximizing the quality of the military HHG move for a given cost, or minimizing the cost of performance of the move at a stated level of quality.

Recent modifications to the HHG carrier suspension procedure, a negative incentive, were found to have reduced the effectiveness of this important traffic management tool. This paper concludes that a positive incentive provision must be included to improve the efficiency of the program. Two proposed alternative methods of achieving this objective were included. One, the Option Plan, would allow Naval personnel the option of arranging and paying for their own move, and being reimbursed at a fixed percent of entitlement. The other, the Bonus Plan, would provide bonus tonnage as a reward to carriers whose past performance was superior.

Criteria were developed to measure and compare these alternatives against the existing method. The criteria were expressed in terms of benefits and costs. Two simple models were constructed and tested with simulated data. Due to inability to quantify certain costs in the Option Plan model, it is considered incomplete and inconclusive and is recommended for further study. The Bonus Plan model, on the other hand, results in the conclusion that implementation of this plan would improve the efficiency of the program by increasing the quality of carrier performance at no increase in cost.

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CHAPTER I

STATEMENT OF THE PROBLEM

The Navy Household Goods Program has a history of continued growth since its meager beginning in 1920.[1] This growth can be attributed to the growth of the Navy, the record of increased entitlements for Navy personnel, and the change in Navy personnel. More frequently than in the past, Navy personnel today are married, have children, and when transferred they move their families and household goods to their new duty stations. The Household Goods Program has grown to big business proportions as indicated by Table I. The cost of the Navy Household Goods Program has risen from 40 million dollars in FY 1956 to 70.5 million dollars in Fiscal Year 1963, while the basic Navy population has remained between 600,000 and 700,000 personnel.[2] This increase in cost was caused by the greater use of entitlements by Navy personnel, larger and more affluent Navy families, and increased rates charged for the movement and storage of household goods.[3]

The Household Goods Program consists of the following four major areas: (1) the shipment, receipt and storage of household goods on a world-wide basis; (2) the movement of mobile homes within the United States; (3) the movement of privately-owned vehicles from, to and between overseas duty stations and on official changes of home port and home yard of vessels; and (4) the disposition of lost, abandoned or unclaimed personal effects.[4] This paper will analyze only that part of the first area pertaining to uncrated

TABLE I

TOTAL HOUSEHOLD GOODS COSTS FOR FY 1963

TYPE	MILLION $	FUND
Transportation	57.4	Military Personnel, Navy
Storage	2.5	Military Personnel, Navy
Autos	4.4	Military Personnel, Navy
Claims	1.6	Claims, Dept. of Defense
Personnel & Overhead	4.6	Various Bureaus & Offices
Total Navy	70.5	

household goods traffic, which is the major portion of the total cost of the program. This consists almost entirely of motor van shipments within the continental United States.

It is the purpose of this paper to examine the existing program as it relates to the movement of the uncrated household goods and to present alternative methods by which the program may be improved. Hopefully, an aspect of this purpose is the development of persuasive factual arguments for or against the various alternative methods. To be more specific, the problem could be stated in the following manner: What means are available for making a more efficient uncrated household goods program? Efficient, in this sense, is defined as maximizing the quality of the military HHG move (variable output) for a given cost (fixed input), or minimizing the cost (variable input) of performance of that objective at a stated level of quality (fixed output).[5]

In order to reduce the semantic confusion to a minimum certain key terms are defined in the following manner:

a. <u>Household Goods (Uncrated)</u> - Personal effects and property used in and around a dwelling.

b. <u>Lowest Overall Cost</u> - The lowest aggregate of all costs which are known or can reasonably be estimated in connection with a shipment; transportation rate, accessorial, drayage, packing and crating, and unpacking.

c. <u>Domestic Door-to-Door</u> - A type of transportation service providing pickup of household goods at residence and delivery to residence at destination.

d. <u>Incentive</u> - Something that constitutes a motive for improved performance. May be positive such as hope of reward for superior performance or negative such as penalty for inferior performance.

In an attempt to obtain a sample of the present feelings of Navy personnel regarding the household goods program, a survey was conducted of 130 members of a Naval Warfare Seminar at the U. S. Naval Postgraduate School, Monterey. This was a class composed of Lieutenants and Lieutenant Commanders who had made a move within the last year. Of course, the survey represents a very homogeneous and limited group of Navy personnel. However, insofar as could be determined, no similar survey has previously been conducted on a larger scale by the Department of Defense or any of the military services. In the past, all information, regarding the views of the military personnel in the DOD, has been obtained from the quality control sheets filled out upon completion of a move. These quality control sheets (RCS-DSA 22(DTMS)), which ask the service member if he is satisfied with his move, will be covered in more detail in Chapter III. Of the 130 forms issued in the Monterey survey, 125 forms were returned. The numbers for each category in Table II indicate the number of responses and the percentage of the 125 which chose that category.

The most significant results of the survey follow. Only 28.8% of those forms returned indicated that the present household goods program for permanent duty change was satisfactory as it is now. The response in 60% of those forms returned indicated that the owner desired to make the selection of a mover. The most frequent response to the item entitled "unsatisfactory in following respect(s)" was: "Hold the carrier more responsible for damaged items." The next most

TABLE II

SUMMARY OF RESULTS OF LOCAL HHG SURVEY

Date: 12 June 1964

Place: U. S. Naval Postgraduate School, Monterey

Participants: 130 members of a Naval Warfare Seminar (LTs and LCDRs) (125 responses)

1. Do you believe the present household goods program for permanent duty change to be:

	NUMBER	PERCENTAGE
a. Satisfactory as is	36	28.8%
b. Lacking in some respect(s);	89	71.2%
(1) desire simpler claims procedure for losses	70	56.0%
(2) desire owner selection of mover	75	60.0%
(3) desire increased weight allowance*	23	18.4%
(4) other(s) (various answers)	14	11.2%
c. Unsatisfactory in following respect(s) (various answers)	33	26.4%

*Suspect due to incorrect (old) weight allowances printed on survey form (Appendix A)

frequent response to that item was: "Takes a long time to get claim payment." The response of the 23 people (18.4%) who indicated that they desired increased weight allowances must be suspect since the old and currently incorrect (1964) weight allowances were printed on the survey form. A copy of the survey form used is included as appendix A.

When one realizes that each of the 180,000 shipments made during fiscal year 1963 represents most of the earthly possessions of the Navy family involved, it is not hard to understand why the number one item, on a survey to determine the biggest morale factory in the Navy, was the "proper movement of household goods."[6] The "proper movement of household goods" implies that the goods shall reach their destination without loss or damage. A more recent statement amplifying the importance of the program was made by Rear Admiral John Crumpacker, Chief of the Bureau of Supplies and Accounts, in the June 1964, Monthly Newsletter;

> Every year about one third of our Navy families move. Moving their household effects is one of our most important responsibilities. Much of the Navy's strength and the morale of its men depend on how well we do our job of moving household goods.[7]

The importance of this program must not be diluted because of the current Cost Reduction Program (CRP), but the HHG program must be examined in light of CRP to determine if we can obtain a more efficient program.

The Cost Reduction Program, the result of a revitalized economy drive in Washington, makes cost reduction everyone's business and at all echelons.[8] The Cost Reduction Program has identified

areas in which cost reductions can be achieved.[9] Among those listed[10], number twenty-one, (Improving Transportation and Traffic Management) could justify a deeper analysis of the Household Goods Program. The regard in which the Secretary of the Navy holds this Cost Reduction Program can be seen from the following statement:

> The Department of the Navy fully supports President Johnson's pledge to Congress [to give a dollar's value for every dollar spent]. Cost reduction and economy must increasingly become our way of life. Every organization, every ship, and every person associated with the Navy or Marine Corps, from my office on down, will participate in this program.[11]

It is now appropriate to state certain assumptions upon which this paper is based:

1. There can be no reduction in entitlements as viewed by Navy personnel because of the effect any such reduction would have on Navy morale. Since career motivation is a function of morale, among other things, no reductions should be considered.

2. There can be no increase in total cost to the government, since the current policies on cost reduction make an increase in resources unlikely.

3. The human element, comprised of human error and inefficiency, is one cause of the problems which confront the Household Goods Program. This human element is the result of a lack of training of all personnel involved--the movers, Navy personnel, and HHG personnel. The current policies of continuous education, training and review of procedures are combating the human element. No attempt will be made to find a solution for this problem cause within the scope of this paper.

4. That the lack of a motor carrier industry incentive for

high quality military moves is a cause of problems which confront the Household Goods Program. This lack of an industry incentive for quality military moves can be revealed by conducting an objective analysis of the program. Such analysis can provide a method or methods of improving the industry's incentive to move military household goods with a higher quality of performance.

The purpose of this paper, in consonance with the previously stated assumptions, is to conduct a critical analysis of alternative methods of providing the moving van industry with more incentive to perform "better moves". The analysis will be performed by setting forth, describing, and testing the alternative methods in comparison with the present HHG program. This analysis is directed to the Navy Household Goods Program but because of the trend toward greater centralization of military affairs certain portions of the analysis will pertain to the entire Department of Defense HHG Program as well.

CHAPTER II

REVIEW OF THE LITERATURE

In conducting a search in the literature, studies of the Household Goods Program were particularly sought, as well as any transportation, traffic management, or otherwise relevant studies. The *Bibliography of the Defense Logistics Information Exchange* publised during the last three years was reviewed with negative results, although this bibliography purports to be a complete catalog of logistics studies both in-house and under contract to the Department of Defense.

One study was found at the USNPGS library which was a professional paper by Lieutenant Commander John Flynn Hardy, SC, USN, entitled "An Inquiry Into Transportation of Uncrated Household Goods by Motor Van Carrier."[12] However, many major revisions to the Household Goods Program have occurred since 1960 and Hardy's approach is significantly different from that of this paper. *The Index of Selected Publications of the Rand Corporation*, Volume I, and its February, 1963, Supplement listed no related studies.

A review of other potential sources was conducted by looking at both civilian and military household goods moves and related topics. The *Periodic Index* and the *Air University Bibliography* were both reviewed for 1962, 1963, and first quarter of 1964 calendar years. This review turned up numerous articles about the moving van industry, rate policy, and how to move, but provided no articles dealing directly with the problem. This search did provide

some pertinent background information which will be included in Chapter III.

In summary it appears that no recent study in depth along the lines of this paper has been published. The review of the literature could be termed negative with the exception of Hardy's professional paper.

CHAPTER III

BACKGROUND

In conducting the review of literature numerous articles which provided material essential for the peripheral areas of the problem were discovered. It is the intent of this chapter to present such material, thereby providing sufficient background to enable the reader to evaluate the alternatives developed in Chapter IV.

First, for a look at the publications of non-military writers, an article by Joseph S. Coyle entitled "Troubled Movers Putting Their House in Order,"[13] provides some current information regarding the moving van industry and its views. This article brought out that the household goods industry draws its business from three types of shippers, with roughly a third coming from government moves (mostly military); a third coming from commercial accounts (industrial shippers who in turn give the movers various kinds of loads); and a third coming from C.O.D. accounts (individual households). The article states,

> the third group is responsible completely, and the first two partially, for moves of families, and because this will always be the lion's share of the movers' business, this very fact indicates that no matter how much internal and external education the industry engages in, no matter how much regulation it undergoes, and no matter how high a level of service it offers the public, there will always be complaints.[14]

To amplify this view Coyle quotes Thomas R. Kingsley, General Manager, American Movers Conference, as follows:

> this we know: because of the tremendous value which most people place upon their possessions--a value that goes beyond

> any consideration of utility--it will never be possible for this industry to measure up to the unlimited expectations of its customers.[15]

From views and statements such as these it appears that certain segments of the moving industry have resigned themselves to the fact that they will always have complaints.

Coyle also provides a look at the present rate structure and recent developments in that area by stating the following:

> A traditional differential of 4% on line-haul rates had been maintained between the Household Goods Carriers' Bureau (HGCB) (1,800 members) and the Movers' and Warehousemen's Association (MWA) (650 members). Together the two memberships comprise most of the interstate movers, and the rates of one or the other are subscribed to by over 90% of such firms. HGCB members had agreed to a higher rate structure for themselves because the biggest van lines in the country were among their numbers, and the independents subscribing to the MWA scale needed this advantage in order to compete. Lately, however, some of the members of the bigger bureau were confronted with loss of business from big industrial shippers. Consequently, in September (1963) the HGCB announced 'unprecendented' rate reductions that would wipe out the differential. It argued that 'the existence of the two-level rate structure is now threatening to impose a severe traffic loss upon the carriers at the higher rate level...The new scale took effect October 1, 1963 and was hailed as the first time since the Motor Carrier Act was passed in 1935 that rates were uniform in the industry'.[16]

The latest ICC action concerning the moving industry was the issuance of new regulations governing the practices of motor carriers of household goods.[17] This order was scheduled to become effective 10 July 1964, however the moving industry has asked the ICC to postpone the effective date of the new rules and implementation of the new rules is currently delayed.[18] Among other provisions, the new rules provide:

a. A higher minimum liability on carriers for loss or damage --60 cents per pound per article instead of a maximum of 30 cents.

b. Unless the shipper specifies otherwise, the carrier will be liable for the actual value of all articles lost or damaged up to a total of $10,000, and, if a greater value is declared, up to that greater value. The additional charge to the shipper for full liability is 50 cents per 100 pounds.

c. Selling of insurance by carriers to shippers to cover loss or damage is prohibited.

d. Whenever actual charges exceed the estimated charges by 10 percent or $25, whichever is greater, the carrier must notify the shipper prior to delivery, at the carrier's expense. Underestimates of 10 per cent or more must be reported monthly to the Commission.

e. The delivery date or period requested by the shipper must be noted on the bill of lading. If the carrier is unable to meet this 'preferred' date, he must notify the shipper at his own expense of the date on which delivery will be made.

f. Bills of lading must list the names of all known carriers who will handle the shipment; the name, address, and telephone number of the carrier to contact about the shipment, and the address and telephone number where the shipper can be reached with information about the delivery time and the charges which will be due.

Mr. John T. McBrayer, President of the Board of Directors of the American Movers Conference, has stated, "that the Commission's proposals will drastically increase costs of household goods carriers because of heavy administrative burdens and new liabilities provided and this would result in increased transportation costs to the public."[17]

From McBrayer's statement it appears that when the new ICC regulations are implemented, the cost to the public will increase, as will the mover's liability, with the latter providing a quality incentive to the mover.

A significant and illuminating survey of some of the civilian aspects of the household goods moving industry is provided by an article in Business Management (March, 1964), entitled "How 321 Companies Pay for Transferring Employees." Significant portions of data from the article are displayed in Table III. One of the most important facts revealed by the survey was that over half of the companies surveyed allow their employees to select their own mover.[19] The desires of sixty percent of the officers responding to the local HHG survey mentioned in Chapter I supra would indicate that the personal choice of a mover is important to them, a fact which some civilian organizations have already recognized.

Among the military publications, the first item of importance is Department of Defense directive 4500.26 of 8 December 1959. This directive was distributed to all Navy household goods shipping activities by BUSANDA Notice 4050 of 9 December 1959 for information purposes. It was to be implemented by a joint regulation to be published by the single manager for Traffic Management (Secretary of the Army) after coordination with all four military services.[20] This directive was never implemented. The major policy changes governing the transportation of uncrated household goods contained in the directive were the following:

a. Placed greater emphasis on the quality of service to be rendered by the carrier.

TABLE III

PARTIAL RESULTS OF A BUSINESS MANAGEMENT SURVEY

DOES YOUR FIRM USUALLY PAY FOR A MOVING VAN?	
Usually pay all van expenses	91%
Usually pay part of van expenses	4%
Usually pay no van expenses	5%
DOES YOUR FIRM USUALLY PAY PACKING CHARGES?	
Usually pay all packing charges	87%
Usually pay part of packing charges	5%
Usually pay no packing charges	8%
DOES YOUR FIRM--OR DO ITS EMPLOYEES--SELECT THE VAN LINE USED?	
The company selects the line	45%
The employees select the line	55%

b. Permitted the service member to state a preference for the carrier that was to handle his shipment.

c. Eliminated "equitable" distribution of traffic among all qualified, low cost carriers having service tenders on file.

d. Established more rigid requirements for carriers before they could be considered qualified to participate in DOD household goods traffic.

e. Made it mandatory that transportation officers suspend carriers for unsatisfactory service and deliberate commission of unethical acts.

The February, 1960 Monthly Newsletter stated that

> Implementation of DOD directive 4500.26 of 8 December 1959... has been delayed by the Department of Defense as a result of a series of meetings held early in January (1960) by the Department of Defense with interested representatives of the moving industry and members of Congress.
>
> From statements presented at the meeting, it was evident that certain segments of the motor van industry are opposed to the directive as now written while others highly favor the directive...
>
> The reason for the delay in implementing the aforementioned directive is to insure that all interested groups are given full and complete opportunity to present detailed statements of their positions.[21]

Hardy's study[22] provides amplification of the reasons for delaying implementation of the revised policies, stating that "...The Moving and Storage Industry, which is 95% represented in Washington, blocked the new policy directive by political pressure." Hardy supports this statement by citing the action of the Independent Carriers, whom he says was represented by "The Movers Committee for Equitable Distribution of Government Traffic," as objecting to

the most important changes proposed by the new directive, namely, eliminating the present requirement for equitable distribution of traffic, and emphasizing the quality of service; in addition, the committee objected to consideration of owner preference in assigning traffic to low cost carriers. The basis for these objections, according to Hardy, was the fear of the smaller independent carriers that the larger motor van lines would use their advertising potential to run them out of business.

It can be noted that all of the major policy changes contained in this directive were of the type which provide incentive to the moving van industry to improve upon the quality of military moves. Furthermore, the influence of the moving and storage industry in Washington must be considered as an important current factor affecting the various alternative proposed in Chapter IV. Too strong an objection on the part of the industry would lead to more unimplemented directives.

Another significant item was DOD directive 4500.31 issued 16 September 1963, which provided for increased centralization of the household goods program.[23] It gave the Defense Supply Agency (DSA) the responsibility for world-wide traffic management of the DOD household goods moving and storage program. World-wide traffic management can be defined as the selection of the mode of shipment, the selection of a carrier, the method of shipment, and the establishment of criteria on which the selections will be made and implemented. These duties are performed by DSA through its traffic management component, the Defense Traffic Management Service (DTMS). This assignment was designed to insure uniformity and cost effec-

tiveness throughout the HHG program and was made as a result of a study initiated by the DOD. In addition, the directive provided for the establishment of consolidated household goods shipping offices. These offices have not been further defined to date.

This DOD directive was provided further amplification by the June, 1964, Monthly Newsletter which stated that, "This directive provided that the Navy was responsible for operation, staffing and supporting of the local household goods offices, and was also responsible for entitlements, budgeting, housing, staffing, funding, accounting, disbursing and claims."[24] The Navy program direction is currently under the Bureau of Supplies and Accounts, the Bureau of Personnel, and the Navy Finance Center. The Bureau of Supplies and Accounts, Assistant Chief for Transportation and Facilities, is responsible for household goods entitlements and the technical management of the Navy Household Goods Program. The Bureau of Naval Personnel provides the majority of the funding of the program from the appropriation Military Personnel, Navy, and the representatives to the Joint Travel and Per Diem Committee, and the claims service under the Military Personnel Claims Regulations. The Navy Finance Center, Washington, D.C., audits and pays the majority of all household goods invoices and audits all charges against the Navy member's entitlements. This DOD directive and the interpretation of it in the Monthly Newsletter point out the emphasis that has been and is being placed on centralization, uniformity, and cost effectiveness.

The search of the literature revealed that many time-saving

improvements have been made through the use of mechanization and labor saving devices. The November, 1960, Monthly Newsletter discusses one such device, the flexowriter, which enables high speed form preparation at 100 words per minute, and eliminates the need for repetitive typing.[25] Still another example of mechanization and labor saving was discussed in the Western Traffic Region of the Defense Traffic Management Service Newsletter, dated 20 May 1963 as follows,

> The DTMS developed a computerized system of rate analysis for the 250,000 TGBL (Thru [sic] Government Bill of Lading) which must be analyzed each month. (Thru [sic] Government Bill of Lading is defined as the use of a single government bill of lading to procure transportation and related services for a shipment of uncrated household goods between a point in CONUS and a point outside CONUS.) Through the use of this computer process, significant savings in time and reduced workload will accrue to DTMS, to installation transportation officers, and to the household goods carriers.[26]

The Defense Traffic Management Service Annual Historical Summary for Fiscal Year 1963 showed continued emphasis on mechanization by stating: "Among the operational innovations being considered for future application was computer analysis of rate tenders...on domestic shipments of household goods..."[27]

In the area of cost reduction the Navy is currently engaged in a "Reweigh Program" as indicated in BUSANDA Instruction 4050.51A of 24 December 1963, entitled, "Reweighing of Shipments of Uncrated HHG." This instruction sets forth the following policy:

> The destination transportation officer will order reweighs to be made each quarter on not less than 10% of all shipments and 20% of all inbound shipments moving between CONUS and overseas of uncrated HHG...Reweighs must be under supervision of government personnel to the maximum extent practicable.[28]

The current Defense Traffic Management Service policy concerning reweighing is contained in the following statement:

> The reweigh program is a subject which is receiving much attention at all levels within the DOD. The principal reason for this concern is strong evidence that the DOD is paying several million dollars a year in excess transportation charges due to overstated weights in household goods shipments.[29]

It is evident from these policies that the Household Goods Program is placing sufficient emphasis on cost reduction.

The Defense Traffic Management Service has achieved standardization in many areas of the household goods program. Some examples of this standardization are the following: (1) released valuation, (2) uniform inventory format, and (3) uniform quality control forms. The released valuation was standardized at a minimum released valuation of 30¢ per pound.[30] This describes the limited liability of the carrier to meet claims for loss, damage or destruction of property transported in consideration for a reduced rate for the transportation. The standard released valuation enabled the transportation officer to make an accurate selection of the low-cost carrier. The uniform inventory format was the result of outstanding teamwork on the part of the moving industry, the military services and the Defense Traffic Management Service.[31] This form contained standard location and condition symbols for all carriers and became mandatory on 1 January 1963. In the area of quality control the Defense Traffic Management Service uses several standardized tools in order to obtain high quality service from the carriers.[32] These tools are inspection of carriers' facilities, inspection of periodic shipments, and owner quality control forms. These several

tools will be discussed in a later portion of this chapter. Aside from these tools, all actions taken lead to uniformity, centralization, and cost reduction. Little emphasis remains on measures for improving the performance of the industry.

The June, 1964, Monthly Newsletter presents the following problem areas, causes, and proposed corrections which exist in the Navy Household Goods Program:

> Delivery Date. Of major concern to all of our Navy members is the arrival of their household goods when they request and need them. The failure to meet the delivery date is caused first by the seasonal trends in the household goods industry...and secondly, as a household goods moving van holds the goods of two to four families, goods must necessarily be combined together, thereby delaying shipment to some degree. ...To decrease the number of delays, several actions have been and will continue to be taken; we suspend negligent carriers for missing delivery dates, advise members of transit times for household goods between duty stations and strive to improve our traffic management procedures.
>
> Industry Performance. Industry performance is of great concern to the Navy. We have 1,700 accredited household goods carriers plus many additional freight carriers located throughout the world. Because of the large number of companies involved we have many variances in the quality of service. One of the critical problems in this area, which will always be difficult to rectify, is the fact that household goods movements are seasonal and industry can only afford to maintain a reduced staff seven or eight months out of the year, but in the remaining four or five high volume months must double or treble their staff. These staff additions are usually untrained and unskilled in the movement of household goods.
>
> We try to correct this shortcoming by the use of written instructions as to what we desire, inspections, suspensions of carriers and voiding of contracts.
>
> Damage and Claims. Damage to household goods and submission of claims are an equally important problem. We find that approximately 75% of the claims paid under the Military Claims Regulations are for household goods, and about 5% of all members who move household goods, at the present time, are submitting claims to the Bureau of Naval Personnel.

...All companies....cause some damage and loss to household goods. However, as corrective action, most household goods moving concerns have their own claims reduction programs.

Additionally, the services and DTMS are striving to use claims data as a measure of service provided and to correlate this to a carrier's ability to continue to handle household goods.

Human Element. This program, as are all other programs, is susceptible to the human element. As an example, basic factors are the Navy man, the Navy household goods interviewer, and the truck driver who handles the shipment. These three people are governed by complex regulations. The possible miswording of a member's orders, late arrival of a van, or misinterpretation of entitlements, will cause great confusion. Again, this problem must be corrected by continuous education, training and review of procedures.[33]

It must be noted that of the four problem areas listed, three could be improved upon with better service from the mover. This is in support of the fourth assumption of Chapter I which would have better service obtained by increased industry incentive to improve the quality of military moves. The fourth problem area substantiates the third assumption of Chapter I and as was previously stated, is beyond the scope of this paper.

The search of the literature revealed that the basic DOD directive used in the uncrated household goods traffic is Defense Supply Agency Regulation 4500.1 of 13 June 1963. This directive is basic to the program in all aspects and the sections with most significance to this paper are the quality control information and the suspension procedures.

As stated in the directive in paragraph XIII (Quality Control Information):

To assure high quality service in the transportation of uncrated household goods, it is essential that a carrier, (1) in the usual conduct of his business, take all necessary precautions to insure the safe and timely arrival of the

property at the destination and (2) in all other matters consider the satisfaction of the member and the transportation officer as the final gauge of the quality of his service.[34]

The same paragraph states that high quality service will be assured by inspections by transportation officers, information from the property owner, and inspection of the carrier's facilities and equipment. A brief description of these procedures follows.

The transportation officers inspect a sufficient number of shipments at the origin and destination to assure that carriers comply with all the terms and conditions of the "Tender of Service". The origin transportation officers obtain quality control data on a standard report form (Reports Control Symbol DSA-23(DTMS)) from the destination transportation officers. This report is a complete review of how the move was accomplished, concluding with an evaluation of the performance of the mover. This evaluation by the destination transportation officer judges the overall performance on the shipment as either excellent, satisfactory, or unsatisfactory.

The directive also requires that the origin transportation officer request the owner, in writing, to furnish the information contained on another standard report form (Reports Control Symbol DSA-22 (DTMS)). This report asks numerous questions concerning the complete moving cycle, which are answered by yes, no, or not observed. This form does not allow the owner to make an evaluation of the overall performance of the mover. A copy of this form is included as Appendix B.

The directive further requires the transportation officers to inspect the carrier's facilities and equipment when a "Letter of

Intent" is filed and periodically thereafter. The inspection utilizes DD Form 1433 (Inspection of Carrier's Facilities and Equipment) which is to be kept for use in future evaluation. This form concludes with an evaluation of the warehouse and its operation according to a scale of outstanding, excellent, satisfactory, and unsatisfactory.

All of the information gathered as directed in paragraph XIII must be maintained by the transportation officer to show the quality of service provided by the carrier. Paragraph XIV, entitled Standards for Evaluating Service, specifies some thirty-two elements to be considered in determining the quality of service provided. Apparently, the sole use of all such evaluations regarding the quality of service is to ensure that carriers comply with all the terms and conditions of their "Tender of Service". Evaluations will be covered more completely after paragraph XV of the directive regarding suspensions is discussed. It is noteworthy that "high" quality service appears to equal satisfactory service within the meaning of DSAR 4500.1.

The procedure for suspension of carriers is stated in the directive in Paragraph XV as follows:

> Transportation officers or other appropriate officers shall suspend the use of otherwise qualified carriers for appropriate periods of time when those carriers or their agents fail to provide high quality service or commit unethical acts... Immediate suspension will be effected when an obvious violation of the carrier's Tender of Service occurs and is witnessed or fully substantiated by the transportation officer and/or his authorized representative at origin or destination...For those violations not witnessed or fully substantiated, the transportation officer, prior to imposing suspension, will forward a written notice of the violation to the home office of the carrier concerned. This notice will state the reasons for the contemplated suspension and will allow the carrier ten

calendar days from the date of dispatch of the notice to file a rebuttal. When the carrier does not file a rebuttal within the prescribed time period or files a rebuttal which is not acceptable by the transportation officer, suspension will become effective on the date of such determination...Transportation officers must consider all the facts such as tonnage moving during the suspension period, degree of seriousness of the particular violation, past service performed by the carrier, reasonableness of explanations of violations and known corrective actions taken by the carrier....At the time of suspension, the transportation officer will forward a written notice to the home office of the carrier concerned. This notice will state the reasons for suspension, the date of suspension, and the action required of the carrier before it will be reinstated. A copy of this notice will be sent to the carrier's local representative. In addition, copies of the suspension notice and any other correspondence regarding criticism of the carrier's performance will be distributed, by CONUS transportation officers, to the DTMS regional office having jurisdiction over the area in which the suspending activity is located ....A suspended carrier will be provided an opportunity to appeal the suspension. Every effort will be made to resolve the appeal at local level.[35]

This directive, DSAR 4500.1, contains a "Suspension Guide" which includes fourteen common violations of Tender and the elements which comprise each violation.

In reviewing the suspension system it appears that procedures have been modified over a period of time and such modifications appear to have consistently made the suspension tool weaker. The following modifications are examples. One was to change the length of suspension from a set period (e.g., 30, 90, or 180 days) to the current procedure, "...until written evidence is furnished that satisfactory corrective action has been taken to eliminate or minimize the possibility of a recurrence of said violation(s)."[36] The recommended suspension periods, outlined in the Military Traffic Management Regulations Chapter 217, Paragraph 217015a, dated November 1961 were first violation, 30 days; second violation, 90 days; and third

violation, 180 days.[37] This modification has, in the vast majority of cases reviewed, shortened the suspension period and in turn reduced the penalty for unsatisfactory performance.

Another modification worth noting is the change in reinstatement procedures. DSAR 4500.1 Change 1 dated 5 March 1963 stated that "...suspended carriers will be added or restored to the distribution roster at the highest cumulative weight of any carrier currently operating under the same tariff or tender basis".[38] A more recent modification listed in the WTR DTMS NEWSLETTER dated 18 March 1964 states the following reinstatement procedure:

> A suspended carrier will be charged with the weight of each shipment it would have been tendered during the period for which the carrier is suspended. However, if no shipments would have been tendered during the period of suspension, the carrier will be charged for one shipment at the rate of 3700 pounds (domestic) for each state for which it is listed on the distribution roster...providing other carriers were tendered shipments to such areas.[39]

A look at this modification shows that under the present procedure, if no traffic was tendered during the suspension period, no penalty exists. Under the previous procedure, if no traffic was tendered, the suspended carrier was restored to the distribution roster at the highest cumulative weight of any carrier operating under the same tender basis. This modification has, in the majority of cases, reduced the cumulative weight at reinstatement, which, in turn, has reduced the penalty for unsatisfactory performance.

Still another modification has recently been put into effect. Previously when a carrier was suspended who had "Tender of Service" and "Letters of Intent" on file for more than one mode of transportation

(e.g., Door-to-Door Container and Sea-Van), he was suspended for <u>all</u> modes. This policy was modified by WTR DTMS NEWSLETTER of 19 February 1964 to the present policy of suspending a carrier only in the mode in which the violation of tender occurred.[40] This modification has reduced the impact of suspension upon all carriers which operate with more than one mode of transportation.

The WTR DTMS NEWSLETTER of 18 March 1964 states, "Carrier suspension for unsatisfactory performance is a highly effective traffic management tool when properly and judiciously administered."[41] However, it is obvious that recently this effective traffic management tool has been "watered down" by the various modifications to the suspension system.

As previously stated in this chapter, all evaluations regarding the quality of service are made to ensure that carriers comply with all the terms and conditions of their Tender of Service. By way of contrast, the present DOD Contractor Performance Evaluation (CPE) System, which has been in effect since September 1963, evaluates the degree or quality of performance of contractors. An article entitled, "What the New Contractor Performance Evaluation System will Mean" by C. W. Borklund quotes the five principles involved in the system:

> 1-The system is to provide and record high quality, high reliability data on the quality of a contractor's performance in meeting, or attempting to meet, selected, measurable objectives defined by his contract with the government... What it must do is to focus, single-mindedly, on determining what the contractor's agreement with the government required him to do and how well he satisfied that agreement.
>
> 2-...The system should be fact oriented to the greatest extent possible in order to minimize variability of results because of variations in judgment.

3-The system must emphasize integrity of the evaluation process. Since the fundamental purpose of the system is to reward good performance and penalize poor, the evaluation procedure must consistently discriminate between and within these limits.

4-The system must provide suitable checks within the evaluation process in order that no single input can unreasonably affect the total evaluation.

5-The system must be capable of implementation within the resources available to the government.[42]

This article also mentions that, "...CPE will be an evaluation report, not a report card. It will rate what a contractor did against what he promised, not rank him against other contractors."[43] The article also states that, "...There is nothing in this program which works to the advantage of the large contractor (or to his disadvantage). By concentrating on the degree of achievement of promised performance, all contractors are placed on an equal footing."[44]

It appears that the contractor performance evaluation system could be modified to apply to the uncrated household goods program utilizing the existing evaluation of quality of service program with minor modifications. This new evaluation system could then be used as the basis for another traffic management tool -- incentive for the carrier industry.

The current DOD INCENTIVE CONTRACTING GUIDE for 1963 states that:

> ...The incentive principle holds, in brief, that a contractor should be motivated, in calculable monetary terms, (i) to turn out a product that meets significantly advanced performance goals, (ii) to improve on the contract schedule...,(iii) to substantially reduce the costs of the work, or (iv) to complete the project under a weighted combination of some or all of these objectives. The principle is not a new one but the emphasis that it is receiving is new and is at the core of a major evolution in procurement policy and practice."[45]

It appears that the incentive principle is being given increased DOD emphasis and could be modified to apply to the uncrated household

goods program. This principle could provide a solution for the fourth assumption of Chapter I which was that the lack of an industry incentive is a cause of problems which confront the HHG program.

In summary, we find that the moving van lines consider that one third of their business is from the government and most of that is military traffic. The view which is held by at least a part of the industry is that it is "..never possible to measure up to the customer's unlimited expectation."[46]

It appears that these HHG problem areas - delivery date, industry performance, and damage and claims - could result from lack of industry incentive for higher quality military moves, in agreement with the fourth assumption of Chapter I.

The present Household Goods Program, under the direction of Defense Traffic Management Service, conducts an evaluation of the quality of performance to ensure that carriers comply with their Tender of Service. DTMS and the military services have also introduced numerous time-saving and cost-reduction programs. However, aside from the evaluation to ensure minimum compliance, little emphasis is placed on measures for improving the quality of industry's performance.

The current suspension procedure and the three recent modifications outlined above have appreciably reduced the effect of the traffic management tool of suspension. The present DOD emphasis on procurement incentives is, however, acknowledged, and contractor evaluations in the defense end item (hardware) procurement programs suggest that they might be modified and used in the HHG program.

CHAPTER IV

OBJECTIVES, ALTERNATIVES, AND CRITERIA

As previously stated, it is the objective of this paper to set forth, describe, and test alternative methods to strengthen the incentives for the moving industry to improve the quality of service on military moves. This higher quality service to the owner must be consistent with owner entitlements and must be obtained at no increase in cost to the government.

What alternative methods are available to accomplish this objective? If higher quality service to the owner is to be obtained it would appear to require a "consideration" to the mover in return. Consideration, for this paper, is defined as the conduct of one party given in exchange for the conduct of the other party.[47] This consideration cannot take a direct monetary form since this would most likely lead to an increase in cost to the government, which is in conflict with a basic assumption of this paper. The proposed consideration(s), of course, must also be compared with those currently existing in the HHG program. One example of a consideration in the present program is the equitable distribution of tonnage to qualified carriers.

The present Household Goods Program is excellent in many respects and has evolved to its present state over a relatively long period of time. However, approximately 10% of the shipments[48], or some 18,000 Navy families per year, are being inconvenienced to some degree. This fact motivates the Bureau of Supplies and Accounts

and all commands involved in HHG moves to a continued effort to improve the program.

The present HHG program will be reviewed in three areas; distribution of traffic, selection of carriers, and evaluation of carriers. The present procedures for the distribution of traffic are stated as follows (emphasis added),

> Transportation officers will assure that all qualified carriers are provided an equal opportunity to compete for traffic...
>
> Only the carrier(s) who provide high-quality service at the lowest over-all cost to the Government will be used. In selecting the household goods carrier for a specific move, the transportation officer must first ascertain the lowest cost satisfactory mode between points of origin and destination and, secondly, the qualified low-cost carrier(s) within that mode... Having ascertained the qualified low-cost carrier(s), the transportation officer then will select from among these, a carrier whose tonnage position is within the scope of equitable distribution and will tender the shipment to that carrier.
>
> To the extent practicable, traffic shall be distributed by destination state(s)...among carriers in equitable proportions over a 12-consecutive-month period subject to the carrier's ability to respond to requirements of the traffic offered for movement. When a carrier is offered a shipment and cannot perform, the carrier shall be charged with the offer in the same manner as if it had performed.
>
> Traffic shall be distributed according to the originating carrier rather than according to agent.
>
> A Traffic Distribution Record shall be maintained for all qualified carriers whose over-all cost and quality of service are equal. Separate distribution records will be maintained for each origin (area(s) of operation) by each mode of transportation.
>
> For the purpose of maintaining equitable distribution, a maximum differential of 20,000 pounds will be observed on each traffic distribution record. Such differential is defined as the difference between the highest and the lowest cumulative totals of currently qualified carriers on the same rate tariff/tender basis.

> A request by the property owner for nonuse of a carrier because of specific prior unsatisfactory service shall be honored if another carrier is available to move the shipment at the same over-all cost to the Government; and a preference for a carrier expressed by the property owner may be honored. The owner's desire for a particular carrier will, whenever possible, be given due consideration consistent with the effective and equitable distribution of traffic. When the owner's first preference cannot be granted, the owner will be given the opportunity to express another preference from other eligible high-quality carriers.[49]

Reviewing the present traffic distribution procedure, in terms of incentive for the industry, would indicate that "equal opportunity to compete" and "high-quality service at the lowest over-all cost" are in accord with DOD procurement directives. However, to maintain "a maximum differential of 20,000 pounds" and require that "traffic shall be distributed...among carriers in equitable proportions" disagrees with DOD procurement directives by completely removing any competition motivation between carriers for the military HHG business.

A review of this present distribution of traffic procedure in terms of owner satisfaction would indicate that the owner may "veto" the use of a specific carrier because of prior unsatisfactory service *if* another carrier is available at the same (lowest) over-all cost. The owner is also given the opportunity to express a preference for a particular carrier. However, this falls short of the desires of the majority in the survey taken at USNPGS,Monterey. (See Chart II)

The present procedures used to evaluate service provided by the carriers include inspection by transportation officers, information solicited from the property owner, and inspection by the transportation officer of the carrier's facilities and equipment. As discussed in Chapter III, the inspection by the transportation

officer involves an evaluation of the performance of the mover. This evaluation is termed either excellent, satisfactory, or unsatisfactory by the transportation officer and is made to ensure that carriers are complying with their Tender of Service. This evaluation is not conducted on all moves. In addition, the owner is requested to furnish a standard report upon completion of the move (Appendix B). This report does not require the owner to make an evaluation of the overall performance of the mover. The carrier's facilities and equipment are also inspected by the transportation officers when a Letter of Intent is filed and periodically thereafter. This inspection uses a standard form which requires an evaluation of the warehouse and warehouse operation according to a scale of outstanding, excellent, satisfactory, and unsatisfactory.

It is noted that the present methods require all of the evaluation information to be obtained by the transportation officer for the sole purpose of ensuring compliance with the carrier's Tender of Service, rather than for use as a comparative rating or evaluation.

Interviews with a number of personnel in the moving van industry elicited the view that under the present program, at certain peak work-load times, they lack sufficient incentive to handle military household goods at all. This can easily be understood when it is considered that the moving van industry is <u>very</u> seasonal and the government obtains a reduced tariff rate from the movers. Another item brought out in these interviews was that the larger nation-wide carriers obtain approximately 20% of their volume from the government whereas the smaller independents obtain approximately 60% of their

volume from the government. The conclusion, as expressed by members of the industry, is "why put anything extra into a military HHG move?" The following reasons are given as justification for this view. (1) There is no assurance of a repeat order based on a superior performance on the military move. (no incentive to superior performance). (2) There is a reduced tariff rate on a military move. (lessened incentive). (3) The possibility exists of slighting the commercial or C.O.D. accounts and these are the accounts that may repeat with a superior mover. (a positive incentive to provide "best" service to non-military moves).

These views result in military HHG movements which are intended to just cover the minimum requirements of the Service Tender, and of course attempting to "just cover" the minimums leads to a higher percentage of so called "bad moves" for the military. How does "just covering the minimums" equate to "satisfactory service" which was previously equated (by directive) to "high quality service"? The inescapable conclusion is that, despite the "high quality service" terms used in applicable government directives, the movers are not motivated to, and are provided no incentives for, high quality service in military moves. Therefore, one important ingredient lacking in the present method is proper incentive for the moving industry to provide high quality moves to the military. This paper submits two plans to achieve this increased industry incentive. These two plans shall be known in this paper as the <u>Option Plan</u> and the <u>Bonus Plan.</u>

The <u>Option Plan</u> allows the service man to either arrange his own move or use the existing HHG program. If the service man selects

the option to arrange his own move, he is to be given the cost of moving a fixed percentage of his entitlement. This fixed percentage is to be the average use of entitlement and in an attempt to obtain a representative percentage, a small sample of the local (USNPGS HHG Office) public bills of lading was made. It is realized that the sample is relatively small and perhaps not representative, however, it does provide an order of magnitude figure for use in the Option Plan. This sample indicated that a group of 50 Lieutenants and Lieutenant Commanders actually used 68.4% of their uncrated HHG weight allowance. If the service member choses the option to arrange his own move, it is proposed that he be given 70% of the total cost to the government of moving his entitlement from the old to the new duty station. He then would select the mover of his choice. His business relations would be conducted just as the mover's other C.O.D. customers, and at no administrative expense or workload to military HHG offices.

The intent of this Option Plan is, of course, to increase the incentive of the moving industry to provide quality service in the hopes of obtaining repeat business. This repeat business is the "consideration" from the owner for higher quality service from a specific mover.

The second alternative, the Bonus Plan, is a plan designed to reward superior performance on the part of the carrier with bonus tonnage. For this plan the existing evaluation methods, with minor modifications, are utilized. The quality control form (RCS DSA-23 (DTMS)) used by the transportation officers requires an evaluation of the overall performance on the shipment as either excellent,

satisfactory, or unsatisfactory, and it requires no modification for this Bonus Plan. The existing quality control form (RCS DSA-22 (DTMS)) used by the owner upon completion of the move requires no evaluation to be made regarding the quality of the performance of the carrier. (Appendix B) This form would require modification to include an evaluation such as the following: The carrier's overall performance on this shipment is considered; excellent, satisfactory, unsatisfactory. The inspection of carrier's facilities and equipment form (DD Form 1433) used by the transportation officer requires that an evaluation be made according to a scale of outstanding, excellent, satisfactory, and unsatisfactory. This form would not require any modification for the Bonus Plan.

The mechanics of the Bonus Plan would be to conduct all inspections and evaluations as they are presently being done and include the new requirement of an owner evaluation. Each of these inspections and evaluations would be equal to a numerical grade and a semi-annual record of the grades would be maintained for all outbound traffic. At the end of the six month evaluation period the total number of points per individual carrier would be divided by the respective carrier's total number of bills of lading for the same period. The resulting number, labeled a performance evaluation number (PEN) in this paper, would serve as a grade which that carrier had attained in the preceeding six month evaluation period.

This evaluation system is a modification of the Contractor Performance Evaluation system discussed in Chapter II. The CPE would not rate contractors against other contractors but only

against what they promised to do. This system would rate carrier vs carrier since they agree to perform the same service by their Tender of Service. It is felt that this modification of the CPE is justified since the service performed is common in HHG, whereas in the defense industry it varies greatly from product to product. It is further felt that there is nothing in this plan which works to the advantage or disadvantage of the large or the small carrier. The other principles of CPE would be retained in this evaluation. These would include the following; determine how well the carrier satisfied his Tender of Service, provide that no single input could unreasonably affect the total evaluation, and require the evaluation to be capable of implementation within the present resources available.

This plan would provide a bonus tonnage to the "bonus" carriers based on their performance evaluation number (PEN) standing. The bonus tonnage would be a percentage of the installation's outbound traffic, and would provide a "consideration" for the bonus carrier's improved performance. This would provide a plan which would be equitable for all the various sized installations. An added feature would be to allow the bonus carriers to spread out their bonus tonnage over a six month period. This would increase the incentive for high quality moves since the "bonus" movers could use their additional tonnage to smooth out their seasonal variations. They would not be required to take the additional bonus tonnage during their peak season.

With the foregoing objectives and alternatives established,

it is now necessary to devise means of measurement and comparison, namely a set of criteria. These criteria can be expressed in terms of benefits and costs. This will allow the alternatives to be compared with the current method in the degree to which they approach maximum output with a fixed level of input. In other words, the alternatives will be compared, with the current method, in the degree to which they improve or degrade benefits with respect to a fixed cost.

The only benefit which may be compared between both of the alternative methods and the present HHG program is higher quality household goods moves. This benefit can be measured by; reduced percentage of claims for damaged or lost household goods, increased percentage of on-time deliveries, and general improved industry performance. The reduced percentage of claims for damaged or lost household goods will in turn lead to reduced government payment of claims and reduced administrative costs of processing claims. The benefit of higher quality household goods moves will also result in improved morale of Navy personnel. However, it is impossible to quantify any such improvement within the scope of this paper.

The cost criteria generally applicable are; <u>cost of the move</u>, <u>cost of damages and losses</u> to household goods, and <u>cost of administration</u> of the Household Goods Program. To be more meaningful each of these cost criteria require amplification to fully describe what is included in each cost.

<u>Cost of the move</u>. The cost of the move is the basic variable cost of the program and is also the most expensive cost element. The cost of the move includes all costs of the (1) line haul, (2) packing

and crating, and (3) drayage, storage, and handling. The cost of segments one and two are included on all uncrated household goods movements within the CONUS. However the third segment cost is included only when the shipment is placed in temporary storage in transit. This Storage in Transit (SIT) was found to occur in approximately 95% of the cases reviewed at the USNPGS, Monterey, which, even allowing for the small size of the sample, is considered to be indicative of the magnitude of use service-wide.

Cost of damages and losses. This cost may be broken down into the following segments; (1) the cost of the claims for damage and losses to household goods, and (2) the administrative cost of processing the claims. The cost of the claims is the actual payment made to the service member which is made in accordance with public Law 571. This law provides a limitation of $6,500 payable on any claim resulting from damage or loss of household goods shipped by military personnel under competent orders.[50] The administrative cost of processing the claim is comprised of such items as the time, energy, and investment of the personnel, equipment, and facilities involved in the claim process from submission to payment.

Cost of the administration. The cost of administering the HHG program is broken into; (1) the personnel costs and (2) the overhead costs. This cost is borne by the various management Bureaus and Offices within the Navy.

In summary, the objective of this paper is to propose and examine methods to improve the incentive for the moving industry to provide consistent high quality service on military moves. The proposed

alternatives to the current method by which this objective may be met are; the Option Plan, and the Bonus Plan. The quantitative criteria by which these alternatives may be evaluated are quality of the move, cost of move, cost of damages and losses to household goods, and cost of the administration of the Household Goods Program.

CHAPTER V

RESULTS

Having developed alternative methods and criteria, it is the purpose of this chapter to present a means of comparison and to test each alternative with simulated data. Since the Bonus Plan and Option Plan do not compare well to each other, they will each be compared with the present program in separate models. The model which will be employed for comparison of the proposed Option Plan with the current program will be a very simple cost model of a typical HHG move. This model will be tested with simulated data which in this instance is a household goods shipment for a LCDR (10,000 pounds weight allowance) from Monterey, California to Norfolk, Virginia. The model which will be employed for comparison of the proposed Bonus Plan with the current program will be a very simple performance evaluation model of the industry's service. This model will be tested with simulated data consisting of five evaluations of moves completed by four carriers.

Table IV presents the comparison of the Option Plan with the current HHG program. This table was constructed by using the current rate tariffs in effect for a shipment from Monterey to Norfolk.[51] The cost of the present system for each segment of the move was obtained: (1) line haul, (2) packing and crating, and (3) drayage, storage, and handling. These three costs were totaled to obtain the cost of the move per hundred pounds. Seventy percent of the 10,000 lbs. entitlement was taken to obtain the average usage of entitlement. As stated in Chapter IV, this percentage was based on the result of

TABLE IV. COMPARISON OF THE PRESENT HHG PROGRAM VERSUS THE OPTION PLAN

Present HHG Program Rate per 100 lbs.***	Service	Option Plan** Domestic rate per 100 lbs.***
$16.80	Line Haul	$17.90
3.00	Packing & Crating	3.00
2.70	Drayage, Storage, & Handling	2.70
$22.50	Total per 100 lbs.	$23.60
Cost to move 7000 lbs.* is $1575.		Given $1575 could move 6673 lbs. at no owner cost

* 70% of entitlement (based on result of local sample of government bill of ladings)

** Based on 70% of the cost to the government under the present HHG program.

*** Rates based on the Household Goods Carriers' Bureau Tariffs

a local sample of Government Bill of Ladings and is only considered a representative figure. The cost of moving 7000 pounds (70% of 10,000 pounds) was obtained by multiplying the weight by the cost per 100 pounds ($22.50) and resulted in the figure $1575. Under the procedure of the Option Plan, the LCDR would be given $1575 and allowed to select his own mover. Next, the poundage that the LCDR could have moved from Monterey to Norfolk was computed. The $1575 was divided by the domestic cost per hundred pounds ($23.60); it was found that 6673 lbs. could be moved with the $1575 provided in cash. Since this is an option plan, this lower weight which may be moved at no cost to the service man is not regarded as a reduction in entitlements.

Conducting a review of the Option Plan versus the present HHG program in light of the criteria developed in Chapter IV is the next step. If the carriers were aware that a satisfied military customer would have the option to select his own carrier on the next move it appears reasonable to conclude that they would attempt to perform a higher quality move. The amount by which this plan would motivate the carrier is proportional to the percentage of military personnel who would select the option. This higher quality performance from the carrier would be measured in fewer claims for damaged and lost HHG, more deliveries on time, and generally improved industry performance. Higher quality moves will directly reduce the cost of damages and losses to HHG through lower total payments of claims and less processing of claims. The reduction in claims and the increase in "on time" deliveries would improve the morale of Navy personnel by some immeasurable amount. To carry the idea still further, this higher quality move, coupled with the option of the owner selection of the

mover, might be the final factors which determine whether or not highly skilled individuals are retained in the Naval service. It seems safe to conclude that the morale of the 60% of those who responded in the local survey indicating that they desired owner selection of the mover, would be improved by the option plan. If the transportation officer could present the owner with a check for the cost of moving 70% of the owner's entitlement, it is obvious that a reduction in cost of administration of the HHG program would occur. No interviews, inspections, or records of equitable distribution, among other items, would be required for the owner who selected the option. This would lead to reduced personnel and overhead costs in the HHG offices and these reduced costs would be proportional to the percentage of military personnel who would select the option. The Navy-wide cost of the move under the option plan would be comprised of the cost of the 70% of entitlement to those personnel who selected the option plus the cost of the move for those remaining with the current HHG program. The Navy-wide total cost of the move would tend to be greater than the current Navy HHG cost of the move. The primary reason for the larger cost to the Navy would be the result of the choice of the option by personnel who had goods weighing less than 70% of their entitlement under the formula. The majority of these personnel would select the option and this in turn would result in 70% of the entitlement being the lowest cost per move. The majority of the personnel whose HHG weighed above 70% of entitlement would generally remain with the present HHG plan. Costs would increase in another manner since 70% of the storage in transit (SIT) would be included in <u>all</u> option

selections, whereas the local review indicated it to be currently used in approximately 95% of the inbound shipments.

A partial summary for this review of the Option Plan in light of the criteria of Chapter IV suggests the following results. Higher quality moves could be made, and they could be measured in terms of fewer claims and damages to HHG and more "on time" deliveries. The higher quality moves and the option of owner selection of the mover would increase the morale of Navy personnel. The fewer damages and losses to HHG would directly reduce the cost of damages and losses through fewer claims paid and lower administrative costs. The cost of administration of the HHG program would be considerably reduced, since the number of personnel needed to administer the program would decline in proportion to the number of military personnel who selected the option. In addition, overhead costs, such as housing for the HHG offices, would be reduced as fewer personnel were needed in the program. The Navy-wide total direct cost of the move under the Option Plan would tend to be greater than the current Navy HHG cost of the move due to the selection of the option by most personnel who had HHG which weighed less than 70% of their entitlement. The payment of 70% of the SIT to <u>all</u> personnel who selected the option as compared to approximately 95% of the personnel would also tend to increase the total direct cost of the Option Plan over the present HHG program.

A review of the total cost of the Option Plan versus the total cost of the present HHG program is incomplete and must remain so until the following questions are answered. What is the correct percentage of entitlement used Navy-wide in the HHG Program? How would the majority of the Navy personnel respond to the Option Plan? How strongly do

people desire to select their own mover? Would Navy personnel pay "some" of the cost of moving HHG, perform "some" of their own packing, or ensure that no (SIT) was used if they could select their own mover? Would Navy personnel reduce their shipping weight below their current HHG shipping weight under the Option Plan? What percentage of entitlement used is equal to the actual cost of administration of the HHG Program? Until these questions are answered, the differential between the personnel who use the present HHG program and those who would select the option represents too large an unknown to establish whether or not the Option Plan is feasible. Since the ultimate determination of the Option Plan's feasibility is outside of this paper it will be included as a recommended area for further study in Chapter VI.

Table V presents the comparison of the Bonus Plan with the present HHG program for five simulated evaluations of moves which are completed with four different carriers. This table was constructed using carriers designated as A through D in both the present HHG program and the Bonus Plan. Evaluations are identical in both methods with the exception of the quality control form completed by the owner (RCS-DSA-22(DTMS)). Under the present HHG program, the owner does not make an evaluation, so this form was modified in the Bonus Plan to require the owner to make an evaluation of the carrier's overall performance on the shipment. This modification more closely approaches a typical customer/carrier relationship, which is what the service man really is to the carrier. Only the service man is a party on <u>every</u> move and performs an inspection on <u>every</u> move, so it is felt that he <u>should</u> evaluate the quality of the move. This evaluation was graded as either

TABLE V. COMPARISON OF THE PRESENT HHG PROGRAM VERSUS THE BONUS PLAN

PRESENT HHG PROGRAM					BONUS PLAN			
CARRIER A	CARRIER B	CARRIER C	CARRIER D	EVALUATION FORM	CARRIER A	CARRIER B	CARRIER C	CARRIER D
1*	1* 1*	1*	0*	Quality Cont. by Owner	2	2 2	1	0
2	2 2	1	0	Quality Cont. by Trans. Off.	2	2 2	1	0
3	2	1	0	Inspect. of Fac. & Equipt.	3	2	1	0
6	8	3	0	TOTALS	7	10	3	0
1	2	1	1	No. of moves per carrier	1	2	1	1
6	4	3	0	(PEN)	7	5	3	0
A L L	E Q U A L		**	Rank by Quality	1***	2	3	**

* Owner Quality Control (RCS-DSA-22(DTMS)) at present only satisfactory or unsatisfactory.

** Would be suspended under both alternatives (unsatisfactory).

*** Would be given bonus tonnage based on (PEN).

GRADING SCALE: Outstanding (3); Excellent (2); Satisfactory (1); and Unsatisfactory (0).

excellent, satisfactory, or unsatisfactory, with substantiation required for an unsatisfactory grade as is the case for suspension under the present HHG program. The other forms are used in the same manner for both the current HHG program and the Bonus Plan. The next step was to assign the following numerical grade to each rating:

Outstanding	3
Excellent	2
Satisfactory	1
Unsatisfactory	0

A record of these ratings was maintained for a six-month period and, for purposes of simplicity, only five moves were conducted in the model. These semi-annual records of the grades for each carrier are divided by the respective carrier's total number of bills of lading for the same period. The resulting number for each carrier was labeled a performance evaluation number (PEN), serving as a grade which each carrier has attained in the preceeding six months. The carriers are then ranked by their respective PEN with carrier A being given the bonus tonnage under the bonus plan for the six months following the evaluation. In actual practise, the top 10% of the carriers would be given bonus tonnage and this would be a percentage (5%) of the installation's outbound tonnage for the same six month period during the previous year. The bonus tonnage could be spread out over the six months period after the PEN was computed at the discretion of the "bonus" carriers. This modification would enhance the Bonus Plan since it would let the "bonus" carriers attempt to smooth out the seasonal trends and not require them to take their bonus tonnage during the busy season.

In the present HHG program, even though the same evaluations are given, with the exception of using the owner quality control form, no use for the information could be found except as a basis for suspension of the carrier. Due to the recent curtailment of the powers of suspension, perhaps a more useful traffic management tool is needed. The Bonus Plan might supply this need by obtaining a more useful evaluation of the mover's performance.

A review of the Bonus Plan versus the present Household Goods Program in light of the criteria developed in Chapter IV reveals a reasonable conclusion that most carriers will attempt to perform higher quality moves if they are aware that a reward exists for the highest quality carriers; moreover, a reward of increased tonnage, although not directly monetary, would normally lead to increased revenue and profit. The mere existence of a reward would place the carriers in a healthy competition for the "bonus" tonnage which would increase the quality of the military move. These higher quality moves will be evident in a higher percentage of "on time" deliveries with HHG arriving in better condition. Consequently, the percentage of claims will directly reduce the cost of damages and losses to HHG through lower total payments of claims and less processing of claims. The cost of administration of the HHG program will tend to increase slightly through a few minor changes and some additional record keeping. However, the total cost of the HHG program will not increase, since any increase in the cost of administration will be more than offset by reductions in the cost of damages and losses to HHG.

A review of the assumptions of Chapter I shows that no discrepancy

exists between them and the Bonus Plan. There is no increased total cost to the government and no reduction in entitlements. As previously stated, it appears reasonable to conclude that the Bonus Plan causes higher quality HHG moves to be performed, since the industry is provided with an incentive to improve its performance. The incentive is in the hope of the reward, or, in this case, the bonus tonnage. Therefore, this alternative method of achieving the objective is not only feasible, but is superior to the present HHG program on an objective basis, with the same level of input costs.

CHAPTER VI

SUMMARY AND CONCLUSIONS

The Navy Household Goods (HHG) Program has a record of constant growth. At the present time, it involves the expenditure of over 70 million dollars annually.[52] This paper examines the existing HHG program in relation to some proposed alternative methods in an effort to improve the efficiency of uncrated household goods moves for Naval personnel. "Efficient" is defined as maximizing the quality of the military HHG move for a given cost, or minimizing the cost of performance of the move at a stated level of quality. Because of the trend toward greater centralization in military affairs, certain portions of this paper pertain to the entire Department of Defense HHG Program as well as to the Navy HHG Program.

The review of the literature has revealed that no comparable study has recently been published. A background chapter has been included to provide sufficient material for evaluation of the alternative methods. This background material consists of military and civilian information regarding various aspects of the moving van industry as they apply to the military HHG Program. Recent modifications to the HHG carrier suspension procedure, which were revealed by this material, are found to reduce the effectiveness of this important traffic management tool. The material also points out the present DOD emphasis on procurement incentives and contractor evaluations in the defense end item (hardware) procurement programs. This paper concludes that similar incentives and evaluations should be part of the HHG program to provide the carriers with a positive incentive for

better quality service.

Since the objective of this paper was to set forth, describe, and test alternative methods for strengthening the incentives of the industry to improve the quality of service on the military moves, two alternative methods of achieving this objective are included. One, the Option Plan, allows Naval personnel the option of arranging and paying for their own move with reimbursement being made at a fixed percent of entitlement. The other, the Bonus Plan, provides a "bonus" tonnage as a reward to carriers whose past performance has been superior. Criteria, expressed in terms of benefits and costs, were developed to measure and compare these alternatives against the existing method.

Two very simple models using simulated data were constructed to evaluate each of the plans with the present HHG Program. The model of the Option Plan presents increased benefits with incomplete cost criteria because of inability to quantify certain costs. Since the quantifications are outside the scope of this paper, it is recommended that the Option Plan be considered as a subject for further study. The model of the Bonus Plan presents increased benefits with a fixed cost criterion. Of course, this paper does not provide a final solution to all the problems of the Navy HHG Program. However, one may assume that by providing the industry with increased incentive to perform military HHG moves, the problem areas will tend to diminish. Therefore, the Bonus Plan provides a means for creating a more efficient uncrated HHG program through the use of increased industry incentive, a new and highly effective traffic management tool.

NOTES

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4. Ibid., p. 4.

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7. "Household Goods Program" Monthly Newsletter, Magazine of the U. S. Navy Supply Corps, (June, 1964), p. 2.

8. "Navy Begins Step-up of Savings Efforts", Armed Forces Management, (March 1964), p. 43.

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18. "Delay Implementation of New Requirements", Movers Journal, Volume VIII, Number 11, (June 15, 1964), p. 1.

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29. "Household Goods" *Newsletter*, Western Traffic Region, Defense Traffic Management Service, Number 44, (March 18, 1964), pp. 34-35.

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APPENDIX A. HOUSEHOLD GOODS SURVEY FORM

HOUSEHOLD GOODS SURVEY

This survey is being conducted to obtain a sample of the present feelings of Navy personnel regarding the household goods program. The results of this survey will be posted on your curriculum bulletin board and are being obtained for incorporation into a management research paper.

(Check or fill in answer)

1. Do you believe the present household goods program for permanent duty change to be:

   a. Satisfactory as is ____________

   b. Lacking in some respect(s);

      (1) desire simpler claims procedure for losses ________

      (2) desire owner selection of mover ____________

      (3) desire increased weight allowance ____________

      (4) other(s) ____________________________

   c. Unsatisfactory in following respect(s) ____________

   ____

2a. Do you generally move items which have a questionable future utility if you are within your weight limitation? YES________ NO________

2b. If your answer to question 2a. was yes, would you discard such items if you were given a monetary incentive of $5.00 per 100 lbs. of weight reduction? YES________ NO________

2c. If your answer to question 2b. was yes, what is the approximate amount by which you estimate you would reduce your moving weight? ________lb.

Please indicate your rank	CDR	LCDR	LT	LTjg
Present Perm. duty weight allow.	10,000 lb.	9,500 lb.	8,500 lb.	7,500 lb.

Please drop this form in the boxes provided at the rear exits of King Hall.

Thank you for your cooperation.

D.G. DEBODE
LT USN

Appendix B. Owner Quality Control Form

FROM: COMMANDING OFFICER
TO:

SUBJECT: QUALITY OF CARRIER'S PERFORMANCE (RCS DSA-22 (DTMS))

YOUR HOUSEHOLD GOODS ARE SCHEDULED TO BE PICKED UP AT ____________ (ADDRESS)
ON ________ (DATE) M AT ________ (TIME) BY ____________ (CARRIER) WHOSE AGENT IS
____________ (AGENT) AND DELIVERED TO ____________ (ADDRESS)
ON ________ (DATE)

IN ORDER THAT WE MAY PROPERLY EVALUATE THE SERVICES RENDERED TO YOU, IT IS NECESSARY THAT YOU FURNISH THE FOLLOWING INFORMATION TO THIS OFFICE AS SOON AS YOUR PROPERTY HAS BEEN DELIVERED TO YOU:

DATE HOUSEHOLD GOODS WERE PICKED UP AT YOUR FORMER RESIDENCE ____________
DATE HOUSEHOLD GOODS WERE DELIVERED TO YOUR NEW RESIDENCE ____________

	YES	NO	NOT OBSERVED
WAS THE SHIPMENT STORED IN TRANSIT?	___	___	___
WERE PERSONNEL IN MY OFFICE COURTEOUS AND HELPFUL?	___	___	___
WERE YOU SATISFIED WITH THIS MOVE?	___	___	___
DID CARRIER PERSONNEL AT BOTH ORIGIN AND DESTINATION APPEAR:			
A. COURTEOUS?	___	___	___
B. PRESENTABLE IN APPEARANCE?	___	___	___
C. QUALIFIED TO DO THE JOB?	___	___	___
D. ADEQUATE IN NUMBER TO DO THE JOB?	___	___	___
DID CARRIER MEET SCHEDULED PICKUP DATE?	___	___	___
WAS YOUR PROPERTY DELIVERED WHEN YOU WANTED IT?	___	___	___
WAS NECESSARY SERVICING PERFORMED ON YOUR APPLIANCES AT ORIGIN AND DESTINATION?	___	___	___
DID CARRIER REASSEMBLE ARTICLES AT DESTINATION WHICH WERE DISASSEMBLED AT ORIGIN?	___	___	___
WAS A CLEAN-TYPE METHOD (RATHER THAN SHREDDED PAPER, EXCELSIOR, PRINTED NEWSPAPER, ETC.) USED TO PACK DISHES AND GLASSWARE?	___	___	___
WERE GENERAL CONTENTS INDICATED ON ALL CARTONS PACKED BY THE CARRIER?	___	___	___
DID CARRIER FURNISH YOU A LEGIBLE COPY OF COMPLETED INVENTORY AND CONDITION LIST AND A COPY OF GOVERNMENT BILL OF LADING?	___	___	___
WERE ARTICLES CLEARLY MARKED OR TAGGED TO CORRESPOND WITH INVENTORY AND CONDITION LIST?	___	___	___
DID CARRIER UNPACK ALL CARRIER-PACKED ARTICLES (UNLESS OTHERWISE REQUESTED BY YOU) AND PLACE IN THE APPROPRIATE ROOMS?	___	___	___
DID CARRIER LEAVE YOUR RESIDENCE CLEAN AND FREE OF ALL DEBRIS RESULTING FROM PACKING AND UNPACKING?	___	___	___
WAS PROPERTY DELIVERED WITHOUT LOSS OR DAMAGE?	___	___	___

USE THE FOLLOWING SPACE FOR ANY GENERAL COMMENTS OR SUGGESTIONS YOU HAVE THAT YOU BELIEVE WILL ASSIST ME TO IMPROVE THE QUALITY OF SERVICE OFFERED MILITARY PERSONNEL ON PERMANENT CHANGES OF STATION. IF YOU HAVE ANSWERED ANY OF THE ABOVE QUESTIONS IN THE NEGATIVE, EXPLAIN YOUR REASONS THEREFOR. IN THE EVENT YOU HAVE ANY TROUBLE WITH THIS MOVE, CONTACT ____________ WHO HAS BEEN DESIGNATED TO ASSIST YOU.

____
(SIGNATURE OF OWNER)

IN ACCORDANCE WITH BUSANDA MANUAL 58024-5, THE PROMPT FURNISHING OF THE ABOVE INFORMATION IS MANDATORY.